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SECURITIES AND EXCHANGE COMMISSION

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February 9, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Add Rule 7310 (Drill-through Protection) to Implement a New Price Protection Feature

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 27, 2016, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to add Rule 7310 (Drill-through Protection) to implement a new price protection feature. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <http://boxexchange.com>.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to adopt a mechanism that will prevent BOX from experiencing dramatic price swings. Specifically, the Exchange proposes to add Rule 7310 (Drill-through Protection) to implement a new price protection feature on BOX. The new price protection feature is designed to prevent orders and quotes from drilling through and executing at multiple price points. This circumstance can exist if, for example, a Market Order,³ or aggressively priced Limit Order⁴ or quote is entered that is larger than the total volume of contracts quoted at the top-of-book across all U.S. options exchanges.⁵ Currently, without any protections in place, this could result in options executing at prices that have little or no relation to the theoretical price of the option.

³ Market Orders submitted to BOX are executed at the best price obtainable for the total quantity available when the order reaches the BOX market. Any remaining quantity is executed at the next best price available for the total quantity available. This process continues until the Market Order is fully executed. Prior to execution at each price level, Market Orders are filtered pursuant to the procedures set forth in Rule 7130(b) to avoid trading through the NBBO. See Rule 7110(c)(3).

⁴ Limit Orders entered into the BOX Book are executed at the price stated or better. Any residual volume left after part of a Limit Order has traded is retained in the BOX Book until it is withdrawn or traded (unless a designation described in Rule 7110(d) is added which prevents the untraded part of a limit order from being retained). All Limit Orders (with the exception of those with a Good 'Til Cancelled ("GTC") designation as described in Rule 7110(d)(1)) are automatically withdrawn by the Trading Host at market close.

⁵ There are currently 12 options exchanges.

For example, in a thinly traded option:

Away Exchanges:

| <u>Exchange</u> | <u>Bid Size</u> | <u>Bid Price</u> | <u>Offer Price</u> | <u>Offer Size</u> |
|------------------|-----------------|------------------|--------------------|-------------------|
| Away Exchange #1 | 5 | \$2.00 | \$2.05 | 5 |
| Away Exchange #2 | 5 | \$2.00 | \$2.10 | 5 |
| Away Exchange #3 | 5 | \$2.00 | \$2.10 | 5 |
| Away Exchange #4 | 5 | \$2.00 | \$2.15 | 5 |

BOX Price Levels:

| <u>Exchange</u> | <u>Bid Size</u> | <u>Bid Price</u> | <u>Offer Price</u> | <u>Offer Size</u> |
|-----------------|-----------------|------------------|--------------------|-------------------|
| BOX order | 5 | \$2.00 | \$2.05 | 5 |
| BOX order | | | \$2.10 | 5 |
| BOX order | | | \$3.20 | 5 |
| BOX order | | | \$6.00 | 5 |

If the Exchange receives a routable Market Order to buy 50 contracts, the system will respond as described below:

5 contracts will be executed at \$2.05 against BOX.

5 contracts will be executed at \$2.05 against Away Exchange #1.⁶

5 contracts will be executed at \$2.10 against BOX.

5 contracts will be executed at \$2.10 against Away Exchange #2.

⁶ Prior to routing an order to an Away Exchange, the order is first exposed on the BOX Book at the NBBO. See Rule 7130(b)(3).

5 contracts will be executed at \$2.10 against Away Exchange #3.

5 contracts will be executed at \$2.15 against Away Exchange #4.

After these executions, there are no other known valid away exchange quotes. The National Best Bid/Offer (“NBBO”) is therefore comprised of the remaining interest on the BOX Book,⁷ specifically five (5) contracts at \$3.20 and five (5) contracts at \$6.00. In the absence of a price protection mechanism, the order would execute against the remaining interest at \$3.20 and \$6.00, resulting in a potential unexpected fill price.

To bolster the normal resilience and market behavior that persistently produces robust reference prices, BOX is proposing to create a level of protection that prevents the market from moving beyond set thresholds. The thresholds consist of a High Limit and Low Limit⁸ which give an acceptable range for the order or quote to execute. When an order or quote is initially received by the Trading Host,⁹ the Exchange will calculate the High Limit and Low Limit. These Limits present the applicable trading range within which the order or quote may execute (“Acceptable Trade Range”); an order or quote to buy (sell) will be allowed to execute up (down) to and including the maximum (minimum) price within the Acceptable Trade Range. The High Limit is calculated by adding the Price Collar,¹⁰ as defined in further detail below, to the National Best Offer (“NBO”) and the Low Limit is calculated by subtracting the Price

⁷ The term “BOX Book” means the electronic book of orders on each single option series maintained by the BOX Trading Host. See Rule 100(a)(10).

⁸ See Proposed Rule 7310(b).

⁹ The term “Trading Host” means the automated trading system used by BOX for the trading of options contracts. See Rule 100(a)(66).

¹⁰ See Proposed Rule 7310(b)(1).

Collar from the National Best Bid (“NBB”).¹¹ If the NBBO on the opposite side of the order or quote is not available, the NBBO on the same side will be used for calculating the Limits.¹² For Complex Orders, the cNBBO¹³ will be used when calculating the Limits. The High Limit and Low Limit are established upon initial entry of the order or quote; therefore, the Acceptable Trade Range remains the same for the complete processing of the order or quote.

The Price Collar is calculated by first determining the acceptable number of ticks¹⁴ that an order or quote can trade away from the NBBO at the time the order or quote was received. The acceptable number of ticks is then multiplied by the minimum trading increment¹⁵ applicable to that option series. Under the proposed price protection, Participants will be allowed to submit values for the acceptable number of ticks that their orders or quotes can trade away from the NBBO at the time the order or quote was received.¹⁶ The Exchange will also supply default values on an underlying security basis. Unless determined otherwise by the Exchange and announced to Participants via Information Circular, the Exchange default value shall be three (3)

¹¹ See propose Rule 7310(b).

¹² See proposed Rule 7310(b)(4).

¹³ The term “cNBBO” means the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy.

¹⁴ The term “tick” refers to one minimum trading increment for that options series.

¹⁵ See Rule 7050.

¹⁶ For non-complex orders, Participants will be permitted to provide values for this price protection mechanism based on the underlying security. For example, a Participant can provide different values for all series of Google and Apple options. For Complex Orders, Participants will be able to provide a value that will be applicable to all Complex Orders submitted by that Participant.

ticks. The Exchange determined the default values based on Participant feedback and its own analysis. When calculating the Price Collar, and therefore the High Limit and Low Limit, the Exchange will use the most restrictive value for the acceptable number of ticks between the Participant-provided and the Exchange default.¹⁷ This is designed to give Participants flexibility in the level of protection that they want while allowing the Exchange to provide a minimum level of protection for orders and quotes on BOX. Participants will be able to set the value for the acceptable number of ticks on an underlying security basis and may update the values on a daily basis with such changes taking effect on the following trading day. Any changes to the Exchange default values would take effect no earlier than the following trading day.

The proposed price protection mechanism will prevent eligible orders and quotes that are marketable from trading outside of the Acceptable Trade Range.¹⁸ Specifically, the Exchange will not automatically execute, expose, or route eligible orders or quotes that are marketable if the price that the execution, exposure or route would occur at is outside of the Acceptable Trade Range. If, after an initial execution within the Acceptable Trade Range, an order or quote reaches outside the Acceptable Trade Range, then the remaining quantity of the incoming order or quote will be cancelled.

For the following examples, assume that a Participant provides that the acceptable number of ticks an order or quote can trade is two (2) and the Exchange

¹⁷ The Participant must enter a value greater than zero (0).

¹⁸ If an inbound order or quote trades against a Legging or an Implied Order, the proposed price protection mechanism will only apply to the incoming order or quote and not to any other order or quote of the other leg components or of the Complex Order Book involved in completing the trade. See proposed IM-7300-2 to Rule 7300.

default is three (3) ticks. The price protection will use the acceptable number of ticks provided by the Participant because it is more restrictive than the Exchange default.

Assume also that the series is quoted in \$0.01 increments so the Price Collar would be \$0.02 (2*\$0.01). If the series has a NBO of \$1.25 and NBB of \$1.20, then the High Limit would be \$1.27 and the Low Limit would be \$1.18 giving an Acceptable Trade Range of \$1.27 - \$1.18.

Example #1

Assume the following interest is available in the applicable series:

| <u>Exchange</u> | <u>Offer Price</u> | <u>Size</u> |
|-----------------|--------------------|-------------|
| BOX order | \$1.25 | 10 |
| BOX order | \$1.26 | 30 |
| Away Exchange | \$1.35 | 60 |

If the Exchange receives a Market Order to buy 100 contracts, the Exchange will respond as described below:

- 10 contracts will be executed at \$1.25 against the order on BOX.
- 30 contracts will be executed at \$1.26 against the order on BOX.
- The remaining 60 contracts will be canceled because there is no available interest within the Acceptable Trade Range. The order on the Away Exchange to sell 60 contracts at \$1.35 is above the High Limit of \$1.27 and therefore the order cannot trade at that level and the Exchange will not route the order to the Away Exchange.

Example #2

Assume the following interest is available in the applicable series:

| <u>Exchange</u> | <u>Offer Price</u> | <u>Size</u> |
|-----------------|--------------------|-------------|
| BOX order | \$1.25 | 50 |
| BOX order | \$1.26 | 100 |
| Away Exchange | \$1.27 | 50 |
| BOX order | \$1.32 | 50 |

If the Exchange receives a Market Order to buy 200 contracts, the Exchange will respond as described below:

- 50 contracts will execute at \$1.25 against the order on BOX.
- 100 contracts will execute at \$1.26 against the order on BOX.
- 50 contracts will be routed to the Away Exchange to execute at \$1.27.

Example #3

For this example, assume the same book interest exists as in example #2 above. However, assume that when the order is routed to the Away Exchange only 25 out of the 50 contracts are available to execute. The remaining 25 contracts would be returned to BOX. These 25 contracts would still have the same Acceptable Trade Range as when the order was first received by BOX (\$1.27 - \$1.18); the Acceptable Trade Range does not get recalculated when an order returns from being routed. Therefore, the Exchange would cancel the remaining 25 orders because the only remaining interest is the order on BOX to sell at \$1.32, which is outside the Acceptable Trade Range.

The proposed price protection feature will be available to all Participants and will be mandatory. If a Participant does not provide values for this feature, the

Exchange's default values will be applied. Additionally, this proposed price protection feature will be available each trading day after the opening until the close of trading.¹⁹

The Exchange notes that the proposed price protections are intended to protect market participants from executions at prices that are significantly through the market. BOX believes that Participants who submit orders and quotes on the Exchange generally intend to receive executions at or near where the market was when the order or quote was received. Accordingly, the Exchange believes that the proposed price protections will help prevent orders and quotes from trading at an excessive number of price points. BOX also believes that orders and quotes which trade at an excessive number of price points have the potential to create market volatility. As such, the Exchange believes these enhancements to the price protections available on BOX may also help limit unnecessary volatility.

The Exchange will provide Participants with notice, via Information Circular, about the implementation date of these proposed enhancements to the price protections.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),²⁰ in general, and Section 6(b)(5) of the Act,²¹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade,

¹⁹ The proposed price protection feature will not cover the opening of the market. The opening of the market is covered by Rule 7070.

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. In particular, the propose [sic] rule change is consistent with these requirements in that it will reduce the negative impacts of sudden, unanticipated volatility in individual options, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors. Specifically, BOX believes that the NBBO is a fair representation of then-available prices and accordingly the proposal helps to avoid executions at prices that are significantly worse than the NBBO.

BOX believes the proposed price protection functionality will remove impediments to and perfect the mechanism of a free and open market by providing Participants with greater flexibility and control over how orders and quotes interact. Instead of imposing a rigid one-size-fits-all price protection mechanism, the proposed functionality allows for customization and choice on the part of the Participant entering orders and quotes. As proposed, the Participant can select how many price points beyond the NBBO at the time the Exchange receives the order or quote that the Participant would like the order to trade.

BOX believes that providing default values and using the most restrictive value between the Participant-provided and default values is consistent with the stated goals of this feature and is necessary to achieve the proposed expansion of price protection on the Exchange. Providing default values will benefit the options market as a whole as this will ensure that all eligible orders and quotes have a minimal level of price protection.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal will provide market participants with additional price protection. The Exchange does not believe the proposed rule change imposes any burden on intramarket competition as the feature is available to all orders and quotes of all Participants. Nor will the proposal impose a burden on competition among the options exchanges because of the vigorous competition for order flow among the options exchanges. BOX competes with many other options exchanges. In this highly competitive market, market participants can easily and readily direct order flow to competing venues. Additionally, the proposed price protections are similar to those available on competing exchanges.²²

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act²³ and Rule 19b-4(f)(6) thereunder.²⁴ Because the proposed

²² See PHLX Rule 1080(p).

²³ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁴ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)²⁵ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²⁶ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the Exchange may implement the proposed price protections as soon as possible, which will benefit all market participants. In support of its request, the Exchange states the proposed rule change will help to prevent dramatic price swings. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.²⁷

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the

²⁵ 17 CFR 240.19b-4(f)(6).

²⁶ 17 CFR 240.19b-4(f)(6)(iii).

²⁷ For purposes only of waiving the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2016-03 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2016-03. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2016-03 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁸

Brent J. Fields,
Secretary.

²⁸ 17 CFR 200.30-3(a)(12).

